

## Message Text

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C O N F I D E N T I A L SECTION 6 OF 6 USNATO 3828

C O R R E C T E D C O P Y (TEXT)

29. THE TRADE DEFICIT HAS NOT LED TO A BLANCE OF PAYMENTS CRISIS, SINCE BANKING TRANSACTIONS IN THE HONG-KONG AGENCIES AND REMITTANCES FROM OVERSEAS CHINESE HAVE PARTLY OFFSET THE DEFICIT ON CURRENT ACCOUNT AND CHINA HAS SATISFACTORY GOLD AND CURRENCY HOLDINGS AND CAN OBTAIN THE CREDITS IT NEEDS. SINCE 1972, THE LEADERSHIP HAS CONCEDED THE PRINCIPLE OF LARGER USE OF MEDIUM-TERM SUPPLIERS' CREDITS, LABELLED "DEFERRED PAYMENTS", BUT THEY STILL REFUSE GOVERNMENT-TO-GOVERNMENT CREDITS. THEY HAVE BEEN USING SHORT-TERM CREDITS FOR A LONG TIME NOW, MAINLY FOR GRAIN PURCHASES, BUT MORE RECENTLY, TO OBTAIN IRON AND STEEL GOODS AND FERTILIZERS.

30. JAPAN WAS STILL CHINA'S MAIN TRADING PARTNER IN 1974 AND AGAIN IN 1975, WITH A SHARE OF ALMOT 25PERCENT OF CHINESE TRADE TURNOVER. JAPAN CURRENTLY PLAYS A SIGNIFICANT ROLE AS SUPPLIER TO CHINA OF HIGH QUALITY STEEL AND SPECIFIC INDUSTRIAL EQUIPMENTS; ON THE OTHER HAND THE JAPANESE MARKET COULD BE SEEN AS MOST ATTRACTIVE TO THESALES OF CHINESE OIL ALTHOUGH A SHARP COMPETITION MAY ARISE FROM SIMILAR INTERESTS OF CHINA AND SOVIET UNION IN THE REGION SINCE THE LATTER HAS SHOWN ITS DESIRE TO FINANCING PART OF THE DEVELOPMENT OF EASTERN SIBSERIA THROUGH SALES OF OIL TO JAPAN. BECAUSE OF THE DROP IN GRAIN

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PURCHASES, THE UNITED STATES FELL FROM SECOND PLACE IN -975; THE

VOLUME OF TRADE WITH AUSTRALIA AND CANADA PROBABLY ALSO WENT DOWN FOR THE SAME REASON.

31. WESTERN EUROPE IS STILL THE MAIN SUPPLIER OF CAPITAL EQUIPMENT FOR INDUSTRY AND ADVANCED TECHNOLOGY. CHINA HAS OFFICIAL LINKS WITH THE EUROPEAN COMMUNITY, WHICH NOW RANKS SECOND AFTER JAPAN IN CHINESE TRADE. NEGOTIATIONS HAVE BEEN OPENED BETWEEN THE EUROPEAN COMMUNITY AND CHINA TO REPLACE THE PREVIOUS BILATERAL AGREEMENTS WHICH HAVE NOW EXPIRED. THE CLAUSE OF THE MOST FAVORED NATION HAS BEEN APPLIED TO CHINA AND PROGRESS WAS MADE IN LIBERALISING THE TRADE.

32. THE FOLLOWING TABLE GIVES A SUMMARY BREAKDOWN OF EXPORTS AND IMPORTS IN 1974 BY MAIN COMMODITY GROUPS; THE MAIN EXPORTS ARE CEREALS (RICE), LIVESTOCK PRODUCTS AND TEXTILES; THE CHIEF IMPORTS ARE GRAIN, INDUSTRIAL EQUIPMENT AND IRON AND STEEL. THE INDUSTRIAL EQUIPMENT IMPORTS INCLUDE SOME OF THE CHEMICAL INDUSTRY TURNKEY FACILITIES ORDERED IN PREVIOUS YEARS(1).

## ANNEX II THE CHINESE DEFENCE EFFORT

1. AS CHINA DOES NOT PUBLISH BUDGET ALLOCATION FIGURES FOR A NUMBER OF YEARS THE ASSESSMENT OF THE ECONOMIC BURDEN IMPOSED BY THE DEVELOPMENT OF THE MILITARY ESTABLISHMENT BECOMES LARGELY A MATTER OF SPECULATION. THE STRENGTH OF THE REGULAR ARMED FORCES IS CURRENTLY ESTIMATED TO BE THREE AND A QUARTER MILLION AND THE COST OF MAINTAINING AND EQUIPPING A FORCE OF THIS SIZE IS OBVIOUSLY CONSIDERABLE. IT SHOULD BE NOTED HOWEVER THAT THE "PEOPLE'S LIBERATION ARMY" IS INVOLVED IN BOTH AGRICULTURAL AND INDUSTRIAL PRODUCTION AT THE UNIT LEVEL AND THAT, IN ADDITION, THERE ARE A NUMBER OF RAILWAY AND CONSTRUCTION ENGINEER DIVISIONS WHICH ARE CAPABLE OF PROVIDING A SIZEABLE CONTRIBUTION TO NATIONAL ECONOMIC DEVELOPMENT. HENCE, A PERCENTAGE OF THE FUNDS ALLOCATED TO THE ARMED FORCES IS RETURNED TO THE ECONOMY.

2. ON THE OTHER HAND, FOR MORE THAN A DECADE NOW A BIG EFFORT HAS BEEN MADE IN THE NUCLEAR FIELD, WITH ITS DIFFERENT CONFIDENTIAL

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PHASES HIGHLIGHTED BY THE MANY TESTS CARRIED OUT BY THE CHINESE. IT IS LIKELY THAT THE PRODUCTION OF A SMALL NUMBER OF BALLISTIC MISSILES HAS BEEN EMBARKED ON DURING THE LAST FEW YEARS. THE OUTPUT OF CONVENTIONAL WEAPONS, WHICH WAS STEPPED UP WHEN RELATIONS WITH RUSSIA WERE AT THEIR MOST STRAINED, SEEMS TO HAVE SLOWED OVER THE LAST THREE OR FOUR YEARS, AND THE MOST RECENT INFORMATION INDICATES THAT IT IS CONCENTRATED MAINLY ON MASS PRODUCTION OF ARMOUR AND ARTILLERY. THE RECENT

PROCUREMENT OF FOREIGN AERO-ENGINES PROBABLY FOESHADOWS THE DEVELOPMENT OF A PROGRAMME OF INTERCEPTOR AIRCRAFT WITH AIR-FRAMES BASED ON SOBIET MODELS.

3. THE BIGGEST CHARGE ON THE BUDGET IS PROBABLY THE MANUFACTURE OF CONVENTIONAL AND NUCLEAR WEAPONS RATHER THAN THE MAINTENANCE OF LARGE ARMED FORCES. THE OPPORUNTITY-COST OF THE EMPLOYMENT BY THE ARMAMENTS INDUSTRIES OF THE BEST TECHNICIANS AND HIGH QUALITY GOODS IS PROBABLY ASTRONOMICAL, AND ACCORDING TO SOME EXPERTS THESE INDUSTRIES ABOSORB MORE THAN 20PERCENT OF INDUSTRIAL PRODUCTION. WESTERN EXPERTS ALSO GENERALLY BELIEVE THAT BETWEEN 9PERCENT AND 10PERCENT OF THE NAT'L PRO-DUCT GOES INTO THE DEFENCE EFFORT, WHICH MEANS AN OUTLAY OF BETWEEN \$15 AND \$20 MILLIARD, 40PERCENT OF IT ABSORBED BY THE WEAAPONS INDUSTRY.  
END TEXT OF ECONOMIC REPORT.STRAUSZ-HUPE

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